

## Message Text

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ACTION EB-07

INFO OCT-01 IO-13 ISO-00 L-03 FRB-01 OMB-01 ITC-01 SP-02

USIA-15 AGRE-00 AID-05 CIAE-00 COME-00 INR-07 LAB-04

NSAE-00 OIC-02 SIL-01 STR-04 TRSE-00 CIEP-02 CEA-01

AF-08 ARA-10 EA-09 EUR-12 NEA-10 /119 W

----- 051266

P 101714Z NOV 76

FM USMISSION GENEVA

TO SECSTATE WASHDC PRIORITY 3504

UNCLAS GENEVA 8953

E.O. 11652: N/A

TAGS: UNCTAD, ETRD

SUBJECT: UNCTAD SECRETARIAT PAPER FOR PREPARATORY MEETING ON  
COMMON FUND

FOR EB/ICS - BOERNER

REF: (A) GENEVA 8860, (B) STATE 275766

1. FOLLOWING IS SUMMARY OF SIGNIFICANT POINTS IN UNCTAD  
SECRETARIAT PAPER (TD/B/IPC/CF/2) PREPARED FOR PREPARATORY  
MEETING ON THE COMMON FUND NOVEMBER 29-DECEMBER 3. (COPY  
SENT INTERNATIONAL AIRMAIL FOR BOERNER.)  
HEWITT WILL ALSO HAND-CARRY COPY, ARRIVING DC NOV. 15.  
SECRETARIAT IN INTRODUCTION NOTES THAT THE MAIN ADVANTAGES OF  
COMMON FUND CAN BE SUMMARIZED AS FOLLOWS:

(A)THE ASSURANCE OF ADEQUATE FINANCING WOULD ACCELERATE  
THE NEGOTIATION OF MORE DURABLE AND EFFECTIVE ARRANGEMENTS  
FOR THE STABILIZATION AND IMPROVEMENT OF INTERNATIONAL  
COMMODITY TRADE;

(B) COMMON FINANCING WOULD BE COST-EFFECTIVE. THE  
FINANCIAL REQUIREMENTS OF A COMMON FUND WOULD BE LOWER  
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THAN THOSE FOR EQUIVALENT INDIVIDUALLY-FINANCED ARRANGE-

MENTS. SUCH ECONOMIES WOULD RESULT FROM THE OFFSETTING OF PURCHASES AND SALES OF STOCKS OVER A RANGE OF COMMODITIES. MOREOVER, LARGE-SCALE INTERNATIONAL FINANCING COULD PROBABLY BE UNDERTAKEN AT INTEREST RATES LOWER THAN THOSE FOR INDIVIDUAL SCHEMES, IN PART BECAUSE THE INVESTMENT OF COMMON FUND RESOURCES IN A NUMBER OF STOCKING OPERATIONS WOULD SPREAD RISK AS PERCEIVED BY LENDERS;

(C) THE MANAGEMENT OF STOCKING OPERATIONS CAN CONCENTRATE ON OPERATIONAL OBJECTIVES, LEAVING THE SPECIALIZED MANAGEMENT OF SOURCES OF FINANCE AND ADMINISTRATION OF LIQUID FUNDS TO THE COMMON FUND.

2. SECRETARIAT BASES ITS PAPER ON THE FOLLOW UNDERLYING ASSUMPTIONS:

(A) A MAJOR PURPOSE OF THE FUND IS THE FINANCING OF COMMODITY STOCKS. THE EXTENT TO WHICH THE FUND IS RESPONSIBLE FOR FINANCING MEASURES OTHER THAN STOCKING NEEDS FURTHER CONSIDERATION. ONE POSSIBLE APPROACH WOULD BE THE CREATION OF SEPARATE ACCOUNTS OR "WINDOWS" IN FUNDS OPERATION FOR STOCKING AND NON-STOCKING ACTIVITIES.

(B) RESOURCES FOR FUND OPERATIONS WOULD BE PROVIDED THROUGH A COMBINATION OF CAPITAL SUBSCRIPTIONS BY MEMBER GOVERNMENTS AND BORROWING.

(C) THE FUND WILL BE ORGANIZED AND CONDUCTED AS A FINANCIALLY VIABLE AGENCY.

(D) THE VITAL INTEREST OF DEVELOPING COUNTRIES IN THE INTEGRATED PROGRAMME WILL NEED TO BE REFLECTED IN AN EQUITABLE ROLE IN MANAGEMENT AND DECISION-MAKING IN THE FUND.

3. ON FINANCING NEEDS OF THE COMMON FUND, SECRETARIAT SAYS IN LIGHT OF RESOLUTION 93(IV) THE SIZE OF THE FUND HAS BEEN RE-ESTIMATED ON THE BASIS OF EIGHTEEN UNCLASSIFIED

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COMMODITIES AGREED IN RESOLUTION. THE TEN MAJOR STOCKABLE COMMODITIES WOULD REQUIRE \$4.5-5 BILLION AFTER FINANCIAL SAVINGS LIKELY TO BE GENERATED BY OFFSETTING PRICE MOVEMENTS ARE TAKEN INTO ACCOUNT. THE REMAINING EIGHT COMMODITIES WOULD REQUIRE \$1-1.5 BILLION IN THE FORESEEABLE FUTURE.

4. ON CAPITAL STRUCTURE THE SECRETARIAT SAYS THAT IF

STOCKING ARRANGEMENTS FOR THE MAJOR STOCKABLE COMMODITIES WERE SET UP WITHIN THE TIME LIMIT SET BY RESOLUTION 93(IV), AN AGGREGATE OF \$3 BILLION WOULD BE PAID UP CAPITAL AND \$2 BILLION, LOANS. COUNTRY SUBSCRIPTIONS COULD BE DETERMINED ON AN AGREED PERCENTAGE BASIS BETWEEN DEVELOPED AND DEVELOPING COUNTRIES OR ON AN AGREED SET OF CRITERIA SUCH AS THE BENEFITS EACH COUNTRY IS LIKELY TO OBTAIN FROM THE FUND AND ITS RELATIVE "ECONOMIC CAPACITY" OR "ABILITY TO PAY".

5. ON EXISTING INTERNATIONAL STOCKING ARRANGEMENTS, THE PAPER SAYS THE FOLLOWING: "THE RULES OF THE FUND WOULD NEED TO TAKE ACCOUNT OF EXISTING FINANCING ARRANGEMENTS FOR INTERNATIONAL COMMODITY STOCKING AND THE POSSIBILITY THAT SOME COMMODITY ORGANIZATIONS MIGHT WISH TO STRENGTHEN THEIR FINANCIAL POSITION THROUGH AN ELEMENT OF SELF-FINANCING. FLEXIBILITY WOULD THUS BE INDICATED IN THE FINANCIAL RELATIONS BETWEEN THE FUND AND ITS CLIENT ORGANIZATIONS, RECOGNIZING, HOWEVER, THE LIKELIHOOD THAT THE AVAILABILITY OF RESOURCES AND THE TERMS OF FUND LENDING SHOULD ESTABLISH THE FUND AS THE PRINCIPAL SOURCE OF FINANCE. IN PARTICULAR, PROVISION COULD BE MADE BY THE FUND TO ACCOMMODATE CONTRIBUTIONS MADE BY MEMBER GOVERNMENTS TO INTERNATIONAL COMMODITY ARRANGEMENTS, IF THESE GOVERNMENTS SO WISHED. THE EXACT FORM OF ACCOMMODATION WOULD BE THE SUBJECT OF DISCUSSION BETWEEN THE FUND AND THE INDIVIDUAL COMMODITY ORGANIZATIONS. IN ANY CASE, DUE ACCOUNT WOULD NEED TO BE TAKEN OF ACTUAL CONTRIBUTIONS TO INDIVIDUAL ARRANGEMENTS IN ESTABLISHING THE SUBSCRIPTIONS OF THE COUNTRIES CONCERNED TO THE COMMON FUND."

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6. IN THE SECTION ON BORROWED CAPITAL, THE SECRETARIAT OBSERVES THAT "AMONG THE INTERNATIONAL ORGANIZATIONS, A POSSIBLE SOURCE OF FINANCE APPEARS TO BE THE WORLD BANK. THE ANNOUNCED READINESS OF THE BANK TO FINANCE INTERNATIONAL COMMODITY STOCKS MAY LEAD TO THE CHANNELLING OF BANK RESOURCES THROUGH THE COMMON FUND IN THE FORM OF LOANS MADE DIRECTLY TO THE FUND. LENDING FROM IMF DIRECTLY TO THE COMMON FUND WOULD BE A VALUABLE AND ECONOMIC SOURCE OF BORROWING, BUT WOULD REQUIRE CHANGES IN ITS ARTICLES OF AGREEMENT. GOVERNMENTS MAY THEREFORE WISH TO CONSIDER THE STEPS APPROPRIATE TO FACILITATE FINANCING FOR THE COMMON FUND FROM THESE INSTITUTIONS."

7. IN THE SECTION ON OPERATIONS OF THE FUND, THE PAPER

NOTES THAT IT WOULD SEEM DESIRABLE THAT, AS A GENERAL PRINCIPAL, THE FINANCING OF OPERATIONS OTHER THAN BUFFER STOCKS SHOULD TAKE PLACE WITHIN THE CONTEXT OF AN INTERNATIONAL COMMODITY AGREEMENT. THIS MAY INSURE THAT THESE OPERATIONS ARE CONSISTENT WITH THE OBJECTIVES OF THE INTEGRATED PROGRAM. IN THE CASE OF DIVERSIFICATION AND PRODUCTIVITY IMPROVEMENT, ELIGIBLE PROJECTS SHOULD BE PART OF A NATIONAL PLAN CONSISTENT WITH THE AIMS OF THE COMMODITY AGREEMENT CONCERNED.

8. "...IT IS CONCEIVABLE FOR THE FUND TO BECOME INVOLVED IN CERTAIN ACTIVITIES OF A CATALYTIC NATURE IN PURSUANCE OF ITS OBJECTIVES. SUCH ACTIVITIES MIGHT INCLUDE THE PROMOTION OF INTERNATIONAL COMMODITY ARRANGEMENTS, THE OVER-ALL REVIEW OF THE WORLD COMMODITY ECONOMY AND AN ADVISORY ROLE IN THE HARMONIZATION OF COMMODITY POLICIES..." "IT WOULD ALSO BE FOR CONSIDERATION WHETHER TEMPORARY MARKET INTERVENTION WOULD BE AN APPROPRIATE ROLE FOR THE FUND. MARKET INTERVENTION MEASURES, HOWEVER, WOULD RAISE CERTAIN FINANCIAL AND MANAGERIAL ISSUES,..."

9. UNDER ORGANIZATION AND MANAGEMENT, THE SECRETARIAT NOTES THAT THE ALLOCATION OF VOTES, WITH ITS IMPLICATIONS FOR THE DECISION-MAKING PROCESS, RAISES IMPORTANT AND UNCLASSIFIED

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URGENT ISSUES THE MOST IMPORTANT OF WHICH IS HOW HIGH A PROPORTION SHOULD BE ALLOCATED ACCORDING TO THE EQUALITY PRINCIPLE WITHOUT IMPAIRING THE INCENTIVE FOR SUBSCRIPTION TO THE CAPITAL STOCK OF THE FUND.

10. GIVEN LATENESS OF PAPER, GROUP B WILL ONLY HOLD A GENERAL DISCUSSION NOVEMBER 15 AND WILL DELAY DISCUSSION OF SECRETARIAT PAPER UNTIL NOVEMBER 16. UNLESS DEPARTMENT PROVIDES ADDITIONAL GUIDANCE, WE WILL FOLLOW INSTRUCTIONS IN STATE 275766.ABRAMS

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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** DOCUMENTS, FUND ALLOTMENT, TRADE, DEVELOPMENT PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 10 NOV 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
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**Disposition Remarks:**  
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**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
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**Reference:** 76 GENEVA 8860, 76 STATE 275766  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** oatisao  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 02 AUG 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <02 AUG 2004 by schwenja>; APPROVED <27 AUG 2004 by oatisao>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** UNCTAD SECRETARIAT PAPER FOR PREPARATORY MEETING ON COMMON FUND FOR EB/ICS - BOERNER  
**TAGS:** ETRD, UNCTAD  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006